1985-1986 BUDGET

Government Budgetary and Financial Policy Statement

December 18, 1985

Québec

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1985-1986 BUDGET

Government Budgetary and Financial Policy Statement

Delivered before the National Assembly by
Mr. Gérard D. Levesque, Minister of Finance,
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INTRODUCTION

The Budgetary and Financial Policy Statement which I am about to deliver will enable the government to satisfy the expectations expressed by Quebecers last December 2. It is time to reestablish a more competitive taxation system for Québec, ensure better control of public finances and foster a climate favourable to investment and economic growth, and at the same time avoid burdening future generations with excessive public sector debt.

Commitments made by this government during the last election campaign are essential to attain these goals, despite the fact that public finances are not as sound as we would have liked. In today's Statement, I will outline fiscal measures that will be taken immediately and are designed to provide maximum support to the economy, while maintaining the government's financial framework.

To conclude, I will indicate how the government intends to bring its policies into line with various federal measures, and announce other specific measures.

THE ECONOMY

In 1985, economic growth in Québec should reach about 3.5 percent, which will fall below that in the Canadian economy, but exceed by one percentage point the rate forecast in the last Budget. However, it will be below the 4.8 percent growth rate recorded in Québec in 1984.

It should be noted that three years after the beginning of the economic upturn it has scarcely been possible to restore employment to levels which prevailed in the early 1980s. At the end of 1985, employment in the mining, manufacturing, transportation and communications sectors is below levels observed in mid-1981. Moreover, mention must be made of the particularly difficult situation experienced by young people, among whom unemployment reached the completely unacceptable level of 17.2 percent last month.

Aside from the economic problems outlined above, we should mention a number of structural problems which must be identified and which the government intends to tackle immediately.

First, an analysis of medium-term economic forecasts reveals that were the current situation to prevail, unemployment would still exceed 10 percent in Québec at the outset of the 1990s. It is true that investment in Québec has improved recently, particularly because of major projects such as Reynolds and Péchiney, made possible by advantageous electricity rates. On the other hand, if we examine the question in a broader perspective, it is obvious that such growth has not enabled Québec to establish a satisfactory rate of investment in the medium and long term. For the past eight years, it has been less than 20 percent of the gross domestic product; now, in 1985, it is only 16 percent.

Nor can the problems and costs which Québec firms will have to assume in coming years in meeting international competition be overlooked. The lowering of tariff barriers and possible free-trade agreements with the United States will undoubtedly create a new business climate in which only the most dynamic companies can survive. For Québec businesses, free trade may constitute either an insurmountable obstacle or a stimulating challenge.

In light of these problems, two attitudes may be adopted. First, we may stoically accept the situation, deny that anything can be done to change it and hope that conditions will improve on their own.

The second attitude is more positive, and was adopted by Quebecers on December 2. It entails rolling up our sleeves and putting our shoulders to the wheel to change conditions in the Québec economy which are likely to perpetuate structural problems.

Among other things, this means:

- emphasizing more than ever the development of Québec's comparative advantages, especially in the realm of hydroelectricity;
- adopting policies which foster investment in Québec, while helping businesses to become more productive and more competitive;
- implementing once and for all a more competitive taxation system in Québec to promote job creation;
- reviewing government economic intervention, particularly through a reexamination of the plethora of regulations in virtually all sectors of the economy and scrutinizing of various aspects of industrial policy; and
- examining the relevance of such extensive government involvement in government corporations.

It is important to note that the ultimate goal of the measures I have just outlined is simply to free the immense economic potential which we have noted throughout Québec during the course of our meetings with Quebecers. In this way, we will be able to end the chronic underemployment which has characterized Québec in recent years and achieve the fullest measure of prosperity.

PUBLIC FINANCES IN 1985-1986

Let us now turn to public finances for the current fiscal year.

Overview

In the Quarterly Presentation of Financial Transactions as at September 30, 1985, the ministère des Finances announced a revised forecast of the government's financial framework for 1985-1986.

In relation to last April's Budget, the department announced a $140 000 000 increase in the deficit. Estimated expenditure remained unchanged, while revenue fell by $140 000 000, comprising $75 000 000 in own-source revenue and $65 000 000 in federal transfers.

However, the revision was based on a number of hypotheses, particularly with respect to measures which have yet to be implemented and which the outgoing government expected to carry out. This means that, to simply meet the revised estimates, the incoming government will have not only to vigorously control expenditure, but take steps to ensure that a number of hypotheses materialize or compensate for those which do not.

With regard to own-source revenue, the estimated dividend from the Société des alcools du Québec was based on the assumption that the privatization of the network of sales outlets would be accomplished as outlined in the Budget and generate $60 000 000 during the current fiscal year.

Moreover, with respect to federal transfers, a reduction of only $20 000 000 in equalization payments was announced, based on the assumption that federal legislation would be amended prior to next March 31 so that Québec would receive, in 1985-1986, 95 percent of the 1984-1985 equalization payments.

With respect to expenditure, the estimates made public did not indicate any change in relation to initial forecasts. However, if we take into account the cost of firm commitments made by the previous government and inevitable overruns on a number of budgetary items arising from increased costs, the outgoing government has left us with the task of finding the means to achieve the initial goal.

Measures for 1985-1986

In my view, it would not be advisable to increase the budget deficit. It is imperative to restore the government's financial position, not only because its debt is increasing faster than its ability to repay it, but because it is borrowing to pay for current expenditure. Consequently, we need a policy for reducing the deficit, albeit gradually. The government will reduce it from $3 232 000 000 in 1984-1985 to $3 145 000 000 in 1985-1986, which is $90 000 000 less than the forecast of $3 235 000 000 published recently in the Quarterly Presentation.

Thus, I intend to respect our electoral commitments without compromising the Québec government's financial situation. Our determination to reduce Quebecers' tax burden reflects the importance we attach to economic growth and job creation. At the same time, we must emphasize a gradual reduction in the deficit to prevent the debt from increasing more rapidly than Québec's wealth and to avoid continued borrowing to pay for current expenditures. We will do so energetically. It is in this perspective that the next and subsequent budgets will be elaborated. Moreover, the taxation and budgetary measures which follow have been designed to achieve this end.

Société des alcools du Québec

In his Budget Speech last April, the then Minister of Finance announced that, in the months to come, the Société des alcools du Québec would start to sell its network of sales outlets. It is now obvious that the operation was improvised. Where there is reason to call into question the activities of a number of government corporations, the process must be undertaken with a minimum of planning to ensure its success. Therefore, the privatization of SAQ sales outlets will be completely reviewed.

Equalization

Equalization payments for the current year are estimated at $2 920 000 000, although this amount will be received only if the Québec government obtains further supplementary equalization payments from Ottawa prior to March 31, 1986.

I would like to point out that supplementary equalization payments were made to the provinces in 1985-1986 to mitigate a number of negative consequences of the current equalization formula. Québec has already received $110 000 000. When the supplementary payments were announced, the federal government maintained that they would provide the provinces, for 1985-1986, with equalization payments amounting to at least 95 percent of those made in 1984-1985.

It is now anticipated that the supplementary payments will be insufficient to provide Québec with a veritable floor of 95 % of the payments for the preceding year. The federal Finance Minister must quickly rectify this situation if he wishes to respect the principles he outlined last April 1. The need to correct the situation is all the more obvious as Québec would be the only province benefiting from equalization payments which could not rely on such a guarantee of 95 percent.

EQUALIZATION PAYMENTS
(in millions of dollars)

	1984-1985	1985-1986[1]		1985-1986 equalization payments in relation to 1984-1985	
		1st estimate[2] Jan. 1985	2nd estimate[2] Aug. 1985	1st estimate[2] Jan. 1985	2nd estimate[2] Aug. 1985
Newfoundland	568.4	616.4	616.8	108.4 %	108.5 %
Prince Edward Island	129.0	130.2	132.6	100.9 %	102.8 %
Nova Scotia	620.4	588.3	590.1	94.8 %	95.1 %
New Brunswick	531.1	572.3	597.0	107.8 %	112.4 %
Québec	3 074.0	2 920.4	2 844.3	95.0 %	92.5 %
Manitoba	479.6	457.7	457.7	95.4 %	95.4 %

1 Including supplementary equalization payments.
2 Federal Finance Department estimates.

Under the circumstances, the government will ensure that the federal government rectifies this situation prior to March 31, 1986, and that in 1985-1986 Québec benefits from an effective guarantee of 95 percent of 1984-1985 equalization payments.

Budgetary Expenditure

The Quarterly Presentation of Financial Transactions indicated anticipated expenditure of $27 250 000 000 for the 1985-1986 fiscal year. To reach this goal, we will have to implement a number of measures. However, in the light of the most recent estimates and the tax measures which I will announce today, budgetary expenditure cannot exceed $27 200 000 000 if the deficit is to be held at $3 145 000 000.

This cannot be accomplished without sacrifices. First, the administration will be called upon immediately to make a contribution. Measures will therefore be introduced between now and the end of the fiscal year to limit overexpenditures and ensure that appropriations reach required levels. In particular, new objectives respecting lapsed appropriations will be established by the Conseil du trésor in various government departments and agencies. The latter will have the responsibility of taking the necessary steps to meet these objectives, which could lead to freezing certain appropriations or suspending certain administrative activities between now and March 31.

Moreover, all budgetary items subject to overexpenditure, including those requiring supplementary appropriations, will be examined closely. Decisions taken by the outgoing government will be reexamined, especially those which led to abandoning cutbacks outlined in the Budget.

The Supplementary Appropriations #2 for 1985-1986 are intended only to cover urgent, essential or imperative needs, and other supplementary appropriations will be submitted next March for approval by the National Assembly.

Other special measures will be adopted, if need be; these include, for example, carrying forward certain obligations to be met.

TAXATION MEASURES

Measures to be Taken to Keep Our Commitments

Let us now turn to the taxation policy measures which I intend to introduce. These are designed to fulfil our election campaign commitments.

It is time to halt the vicious circle of "taxation-unemployment-taxation". When compared with those of neighbouring economies, clearly Québec's taxation system is not very competitive. At a time when opening our borders to free trade is being discussed, Québec's taxation system must be improved so that it will no longer compromise the Québec economy. This is an essential condition for increasing investment that will ensure economic growth, sound public finances and social and cultural progress.

I am announcing today that, as of January 1, 1986, the Québec tax table will be changed to benefit taxpayers. Marginal taxation rates will be reduced on taxable incomes of $17 360 or more. The maximum marginal rate will drop from 33 percent to 28 percent. The discrepancy between the Québec and Ontario maximum marginal rate, which is 9.8 percentage points for 1985, will be appreciably decreased in 1986 to 3.5 percentage points. To achieve this end, at-source deduction tables prepared by the previous government will be corrected and printed so that employers will be able to use them as of April 1, 1986. This long awaited measure shows the government's determination to make Québec as competitive as possible, to foster economic growth and job creation.

Québec's economic and tourist development is closely linked to that of its regions. As of midnight tonight, the fuel tax will be reduced from 30 percent to 20 percent in the following outlying regions: Abitibi–Témiscamingue, Saguenay–Lac Saint-Jean, Côte-Nord, Nouveau-Québec and Gaspésie. For consumers in these regions, this means a drop in the tax of 4.4 cents per litre for regular unleaded gas. The tax on fuel oil will be less than it is in Ontario. This should lower the price accordingly. The surtax imposed by the previous government since 1981 will be completely eliminated in these regions. The appendix respecting fiscal measures, which is an integral part of this Policy Statement, contains a more detailed description of this measure, including the exact boundaries of the outlying regions.

The tax on insurance premiums imposed by the previous government is quite unpopular. However, the precariousness of the financial framework left by our predecessors does not allow us to completely abolish the tax at present. Nevertheless, we can take certain steps at once. I am announcing that a sales tax exemption will be granted on individual life insurance premiums and individual sickness or accident premiums which are paid after midnight tonight.

Other Fiscal Measures

I would now like to turn to another series of measures. They concern both what the government intends to do about the fiscal and budgetary measures announced by the previous government, and concordance measures with the last federal budget.

First of all, I should like to recall that, in general, the fiscal and budgetary measures contained in the April 23, 1985, Budget Speech, as well as the Minister of Finance's Statements of May 8 and June 20, 1985, will be maintained. They are included in a bill which my colleague, the Minister of Revenue, has tabled in the National Assembly. The reform of mining duties is covered by special legislation that has also been tabled this week by my colleague, the Minister of Energy and Resources.

However, the bill tabled by the Minister of Revenue does not include the measures respecting Stock Savings Plan Investment Funds or the clarification of municipal taxation of business, or those concerning concordance with the May 23, 1985, federal budget. With regard to the Stock Savings Plan Investment Funds and the municipal taxation of business, consultations will continue in early 1986, so that details of fiscal measures can be finalized and made public as soon as possible. Concordance of Québec and federal tax legislation announced in the June 20, 1985, Ministerial Statement will be covered by a bill to be tabled at the beginning of 1986.

The previous government announced the introduction of a minimum tax applicable starting in the 1986 taxation year, while mentioning the possibility of concordance with the formula which Ottawa might adopt.

The federal government has just announced that it has opted for an alternative minimum tax formula, which meets most of the objectives which the Québec government had set. To avoid making the taxation system more complex, the gouvernement du Québec will apply the same formula, taking into account the specific aspects of Québec's taxation and fiscal policy systems. Details are given in the Appendix.

The measures concerning international financial centres announced on November 27 are endorsed by this government. Details on these measures are given in the Appendix.

Moreover, to further encourage the establishment of international activities in Québec, international non-governmental agencies recognized by the gouvernement du Québec will be able to benefit, as of January 1, 1986, from the same tax advantages as foreign governmental agencies. More detailed explanations of this measure will be found in the Appendix, as well as a series of fiscal measures designed to improve and facilitate the application of Québec tax legislation. It also outlines concordance measures with respect to technical modifications in federal Bill C-72, adopted October 29, 1985.

I would like to point out that our government has promised to simplify the administration of the taxation system without jeopardizing the efficiency of tax collection. In this respect, I would like to thank the Minister of Revenue's parliamentary assistant for his contribution.

REVISED FINANCIAL FRAMEWORK

In light of the measures I have just announced, the government's financial framework must be revised. The budget deficit is now estimated at $3 145 000 000; net financial requirements will total $1 715 000 000.

STATEMENT OF FINANCIAL TRANSACTIONS, 1985-1986
(in millions of dollars)

	Forecast in Budget Speech	Revised forecast in September 30 Quarterly Presentation of Financial Transactions	Revised forecast following Budget Statement
1. Budgetary transactions			
Revenue	+24 155	+24 015	+24 055
Expenditure	−27 250	−27 250	−27 200
Deficit	− 3 095	− 3 235	− 3 145
2. Non-budgetary transactions			
Investments, loans and advances	+ 120	+ 150	+ 150
Retirement plans account	+ 1 335	+ 1 300	+ 1 300
Other accounts	+ 40	—	− 20
Surplus	+ 1 495	+ 1 450	+ 1 430
3. Net financial requirements	− 1 600	− 1 785	− 1 715
4. Financing			
Change in cash position	—	—	− 70
New borrowings	+ 3 140	+ 2 990	+ 2 990
Repayments of borrowings	− 1 540	− 1 205	− 1 205
Total	+ 1 600	+ 1 785	+ 1 715

BUDGETARY PROCESS

At present, the budgetary expenditure of the gouvernement du Québec alone accounts for more than 25 percent of domestic output, and the presentation of the Budget is a central element of parliamentary and governmental activity. It is for this reason that the need to improve the efficiency of the budgetary process is becoming increasingly obvious. Last May, the federal government tabled a paper on this matter and a series of proposals for improving the process. The Ontario government did the same last October.

In my view, a government budget is more than a matter for lawyers, economists or accountants. Today, budgets contain decisions which appreciably affect the public, and it is important that it be more directly involved in their preparation, better understand their premises and effects, and be better informed of pre-budgetary discussions and the context in which they take place. Therefore, prior to the end of the current fiscal year, I intend to submit a working paper on the budgetary process.

As suspected, Québec's public finances are a source of concern. Before the end of the current fiscal year, I intend to table a paper outlining the gouvernement du Québec's financial and fiscal position.

Given the close link between the economic situation and the state of the Budget, the document will cover the economic challenges Québec faces. It will also submit for public scrutiny the major budgetary choices which, ultimately, all Quebecers, and not just the government, must make.

CONCLUSION

The Policy Statement which I have just presented shows, beyond a shadow of a doubt, that the present government intends to keep its commitments. It also indicates that we have lost no time in tackling basic problems in the Québec economy, especially the question of the competitiveness of Québec's taxation system. Moreover, our approach reveals that this government plans to manage Québec's public finances in a responsible manner. It is for this reason that, with a response from Quebecers as massive as that of December 2, we will be able to build a solid, prosperous Québec.

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The Economic Situation

The Economic Situation

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In Canada

More than two years after the beginning of the recovery, production continued to expand at a sustained rate in Canada in 1985. Overall, the figures published since January indicate that the economy has given a better showing than anticipated at the beginning of the year. The volume of the gross national product rose by 4.3 percent in the first nine months of 1985 compared with the same period last year.

This development stems from unexpectedly strong domestic demand on the part of both consumers and business firms, which more than made up for the slowdown in external demand, the result of a drop in economic growth in the United States.

Although the rise in domestic demand is attributable in part to household expenditure, the most striking aspect of the recent change is the recovery in residential and non-residential investment. In the housing sector there was a substantial increase in the number of housing starts following the drop in interest rates. The speeding up of projects connected with hydrocarbons combined with a general rise in capital expenditures in other sectors resulted in a cumulative upswing in non-residential construction, in constant dollars, of 6.3 percent in the first nine months of 1985. Expenditures for machinery and equipment also rose in volume, by 3.7 percent, during the same period.

The moderate change in wages and prices was another positive aspect of the situation. With regard to inflation, the growth rate in prices was 3.9 percent between January and October in relation to the corresponding period in 1984. At the same time, wage settlements negotiated under the major collective agreements have varied between 3.2 percent and 3.8 percent (an average of 3.5 percent) since the beginning of the year.

In Québec

The statistics published since the start of the year show that the Québec economy will have improved at a rate slower than that of the country as a whole in 1985, after having surpassed the national level in performance at the beginning of the recovery. However, as in Canada as a whole, economic growth in Québec will be stronger that was estimated at the year's start, and will settle at around 3.5 percent.

In 1985, growth will have been sustained by consumer spending, as shown by retail sales which went up by 8.6 percent in the first nine months of the year. Like last year, automobile dealers recorded the largest gains.

As for investments, the change for the better came principally from the housing sector. After the final effects of Corvée-Habitation had been felt, residential construction in fact benefited from the reduction in mortgage loan rates, so that housing starts in urban centres went up by 15.5 percent between January and October 1985 by comparison with the same period in 1984. Non-residential investments will increase at a similar rate in Québec and Canada as a whole, i.e. 10.5 percent according to the Statistics Canada survey of private and public investment. Manufacturing investment in Québec, although this side of the national average, will remain an important growth factor with an increase of 23.7 percent, as will mining investment with a rise of 27.0 percent.

Although most industrial sectors in Québec experienced a rise in demand, the manufacturing sector showed little strength, the result in particular of an increase of only 3.8 percent in shipments in the first nine months of the year, by comparison with the same period last year. This poor performance is an indication of the situation of the majority of manufacturing industries, which recorded little or no growth in shipments.

Alongside the changes in production, the number of jobs continued to increase between January and November at an average rate of 2.9 percent in Québec, a growth rate similar to that of the rest of the country. Virtually all the additional jobs were in the service sector while in the manufacturing

industries there was loss of 14 000 jobs. The more pronounced increase in jobs than in the labour force resulted in a drop in the number of unemployed from 402 000 to 376 000 from the first 11 months of 1984 to the corresponding period of 1985, which represents an average unemployment rate of 11.9 percent since the beginning of the year.

Prospects for 1986

During the fall, most forecasters in the private sector anticipated a slowdown in economic growth in Canada in 1986 as compared with 1985, that is, a real increase of 3.0 percent or less supported by business investment. Interest rates will probably drop slightly during the year, as should the rate of inflation.

Given such prospects for Canada as a whole, the ministère des Finances also predicted, last September, a slowdown in demand and production in Québec next year. In addition, economic growth in Québec could be less than the national average in 1986, for the second consecutive year, because business investment will not be as strong a component of demand here as in the rest of the country.

This forecast will be reassessed during the coming weeks in the light of recent economic and financial developments in both Canada and the United States. As far as the present foreseeable movement of the Québec economy compared with the Canadian average is concerned, the measures announced in the Government Budgetary and Financial Policy Statement will help consolidate Québec's economic prospects and reduce the discrepancy that has begun in relation to the country as a whole, by bolstering the confidence of individuals and business firms.

ECONOMIC INDICATORS
CANADA

	Unit of measurement	1981	1982	1983	1984	81-80	82-81	83-82	84-83	85-84[1]
						%	%	%	%	%
Gross national product	000 000 $	339 797	358 302	389 844	420 870	14.2	5.4	8.8	8.0	7.4
Real domestic product	000 000 $71	121 071	115 891	118 977	124 861	2.8	– 4.3	2.7	4.9	4.2
Per capita real domestic product	$71	4 974	4 705	4 781	4 970	1.5	– 5.4	1.6	3.9	3.2
Personal income	000 000 $	288 529	317 426	336 984	362 086	17.9	10.0	6.2	7.4	8.6
Per capita	$	11 853	12 887	13 542	14 412	16.5	8.7	5.1	6.4	7.6
Total capital expenditures	000 000 $	79 604	76 761	73 519	75 070	20.3	– 3.6	– 4.2	2.1	9.4
— manufacturing sector	000 000 $	12 739	11 493	8 858	9 089	30.7	– 9.8	–22.9	2.6	26.9
Value of shipments — manufacturing industries	000 000 $	190 851	183 652	200 155	225 970	13.4	– 3.8	9.0	12.9	6.9
Retail sales	000 000 $	94 293	97 638	106 243	116 080	12.2	3.5	8.8	9.3	10.3
Consumer Price Index	1981 = 100	100.0	110.8	117.2	122.3	12.5	10.8	5.8	4.3	3.9
Population (June 1)	'000	24 342	24 632	24 885	25 124	1.2	1.2	1.0	1.0	0.9
Labour Force	'000	11 904	11 958	12 183	12 399	2.9	0.5	1.9	1.8	1.8
Employment	'000	11 006	10 644	10 734	11 000	2.8	– 3.3	0.8	2.5	2.8
Unemployment	%	7.5	11.0	11.9	11.3					10.6[2]

1 Cumulative for the months available.

2 Average for the first 11 months, seasonally adjusted figures.

Sources: National Income and Expenditure Accounts, S.C., 13-001, Gross Domestic Product by Industry, S.C., 61-005, Private and Public Investment in Canada, S.C., 61-205 and S.C., 61-206, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, Consumer Prices and Price Indexes, S.C., 62-010 and S.C., 62-001, Estimates of Population for Canada and the Provinces, S.C., 91-201, Labour Force Survey, S.C., 71-001.

ECONOMIC INDICATORS
QUÉBEC

	Unit of measurement	1981	1982	1983	1984[1]	81-80	82-81	83-82	84-83	85-84[2]
						%	%	%	%	%
Gross domestic product	000 000 $	80 015	84 009	90 432	98 105	13.8	5.0	7.6	8.5	N/A
Real domestic product	000 000 $71	27 375	25 961	26 988	28 286	1.3	– 5.2	4.0	4.8	N/A
Per capita real domestic product	$71	4 252	4 006	4 146	4 324	0.5	– 5.8	3.5	4.3	N/A
Personal income	000 000 $	71 383	77 761	81 641	88 218	16.6	8.9	5.0	8.1	N/A
Per capita personal income	$	11 087	12 001	12 541	13 486	15.7	8.2	4.5	7.5	N/A
Total capital expenditures	000 000 $	13 739	13 097	13 947	15 563	7.2	– 4.7	6.5	11.6	8.7
— manufacturing sector	000 000 $	2 272	2 160	2 088	2 858	3.8	– 5.0	–3.3	36.9	23.7
Value of shipments — manufacturing industries	000 000 $	50 268	48 249	52 623	57 620	11.9	– 4.0	9.1	9.5	3.8
Retail sales	000 000 $	22 671	23 497	25 784	29 006	8.5	3.6	9.7	12.5	8.6
Consumer Price Index	1981 = 100	100.0	111.6	117.8	122.7	12.4	11.5	5.6	4.2	4.2
Population (June 1)	'000	6 438	6 480	6 510	6 542	0.8	0.6	0.5	0.5	0.6
Labour force	'000	3 040	2 998	3 069	3 123	1.7	– 1.4	2.4	1.8	1.7
Employment	'000	2 726	2 584	2 642	2 722	1.2	– 5.2	2.2	3.0	2.9
Unemployment	%	10.3	13.8	13.9	12.8					11.9[3]

1 Preliminary figures.

2 Cumulative for months available.

3 Average for the first 11 months, seasonally adjusted figures.

Sources: Provincial Economic Accounts, S.C., 13-213, Conference Board of Canada, National Income and Expenditure Accounts, S.C., 13-001, Private and Public Investment in Canada, S.C., 61-205 and S.C., 61-206, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, Consumer Prices and Price Indexes, S.C., 62-010 and S.C., 62-001, Estimates of Population for Canada and the Provinces, S.C., 91-201, Labour Force Survey, S.C. 71-001.

APPENDIX B
The Financial Position

The Financial Position

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CHANGES IN 1985-1986 FINANCIAL TRANSACTIONS

A revised forecast of the Québec government's financial transactions for 1985-1986 was recently published in the Quarterly Presentation of September 30, 1985. The original estimates were revised in the light of the actual results recorded between the beginning of the year and September 30 and on the assumption that certain hypotheses and certain measures yet to be implemented would materialize. On this basis, the budgetary deficit, estimated at $3 095 000 000 in the Budget Speech last April was revised to $3 235 000 000, an increase of $140 000 000. Given the $45 000 000 decline in the balance of non-budgetary transactions, net financial requirements increased from $1 600 000 000 to $1 785 000 000.

	Budget Speech 1985-04-23	Quarterly Presentation 1985-09-30	Change
	(in millions of dollars)		
1. Budgetary transactions			
Revenue	+24 155	+24 015	−140
Expenditure	−27 250	−27 250	—
Deficit	−3 095	−3 235	−140
2. Non-budgetary transactions			
Investments, loans and advances	+ 120	+ 150	+ 30
Retirement plans account	+ 1 335	+ 1 300	− 35
Other accounts	+ 40	—	− 40
Balance	+1 495	+1 450	− 45
3. Net financial requirements	−1 600	−1 785	−185

Note: A (−) sign indicates a financial requirement and a (+) sign, a source of financing.

Budgetary Revenue

Estimated budgetary revenue was reduced by $140 000 000, that is, $75 000 000 in the case of own-source revenue and $65 000 000 in federal transfers.

BUDGETARY REVENUE
CHANGES IN RELATION TO THE BUDGET SPEECH OF APRIL 23, 1985
(in millions of dollars)

Own-source revenue		
Hydro-Québec	−156	
Sales of goods and services	+ 25	
Retail sales tax	+ 33	
Employer contributions to the Health Services Fund	+ 60	
Corporate taxes	− 35	
Other	− 2	
		− 75
Government of Canada transfers		− 65
Total		**−140**

With regard to own-source revenue, following the revised financial framework of Hydro-Québec for 1985, the anticipated dividend from the corporation will not be realized because of the depreciation of the Canadian dollar in relation to initial hypotheses and a drop in anticipated revenue. The proceeds from the retail sales tax have been revised upwards because of a strong surge in taxable sales, particularly automobiles. The increase in employer contributions to the Health Services Fund has mirrored the growth rate for this source since the start of the year, while the anticipated decline in revenue from corporate taxes has reflected the revision of the expected rise in taxable corporate income.

The anticipated dividends for the Société des alcools du Québec, at the time of the September 30, 1985, Quarterly Presentation of Financial Transactions, still rested on the assumption that a number of sales outlets would be sold as announced in the Budget Speech. Considering the present situation, this operation will have to be reassessed and will not yield the expected additional $60 000 000 in dividends this year.

The impact on own-source revenue of the fiscal measures announced in this Statement represents a shortfall of $48 000 000 in 1985-1986. Under personal income tax, the reduction in marginal taxation rates starting on January 1, 1986, will decrease revenue by $18 000 000. Reducing the fuel tax rate from 30 percent to 20 percent in certain outlying regions will mean $14 000 000 less in revenue and lifting the sales tax on certain insurance premiums will diminish the anticipated yield from the retail sales tax by $19 000 000. The revision of the proportion of the tobacco tax allocated to financing the Olympic deficit, for its part, will increase revenue by $3 000 000, as indicated in the appendix respecting fiscal and budgetary measures.

Other changes must also be made in own-source revenue estimates as a result of certain unforeseen developments. The new TPD1 forms and the new tax tables for determining personal income tax deductions at source may be used by employers as of April 1, 1986, rather than January 1, 1986, as originally planned. This will mean that estimated deductions at source $103 000 000 higher than forecast will be collected during the first quarter of 1986 and will be refunded to taxpayers when they file their income tax returns.

Furthermore, an additional $15 000 000 will come from an increase of $10 000 000 in the dividend from Loto-Québec and from recovery of unexpended surpluses from various revolving funds created by the government.

Finally, adjustments must be made in anticipated personal income tax and employer contributions to the Health Services Fund, a rise of $49 000 000 and a decrease of $19 000 000 respectively. These adjustments stem essentially from accounting corrections pertaining to standardization of data from the beginning of the current year.

Government of Canada transfers under the equalization program have been changed to $20 000 000 less than the initial forecast at the time of the September 30 Quarterly Presentation of Financial Transactions. A provision was then added to the calculation estimated on the basis of the formula in force and the latest available data, to take into account the promise of the federal authorities that equalization payments for 1985-1986 would not be lower than 95 percent of the level of the previous year; for this to be effective, the amount involved must be paid before March 31, 1986.

Other revisions in federal transfers announced in the last Quarterly Presentation included a reduction of $72 000 000 in shared-cost programs and increases totalling $27 000 000 in other transfers related to the fiscal arrangements and federal contributions to welfare programs; these remain unchanged.

Budgetary Expenditure

Under the heading of expenditures, the revision published in the September 30 Quarterly Presentation of Financial Transactions maintained the $27 250 000 000 estimate of the Budget Speech. This

revision took into account the supplementary appropriations voted by the National Assembly as well as those already determined by the government and the transfers of appropriations and responsibilities from one department to another. It also provided for decisions that would make it possible to free a sufficient amount in lapsed appropriations to fully cover overexpenditures identified in certain accounts, as well as to realize the net savings anticipated in last April's Budget Speech.

Considering the supplementary appropriations of $232 531 600 which have just been tabled in the National Assembly, and the revised budgetary deficit objective after integrating the tax changes contained in this Statement and other anticipated changes in revenue, an additional $50 000 000 in net savings over initial estimates will be realized by the end of the current year. Among the expenditure management measures to be implemented by the end of the fiscal year are new objectives in lapsed appropriations to be set by the Conseil du trésor for government departments and agencies, which will be responsible for the measures required to meet them; this might give rise to a freeze of certain specific appropriations, or suspension of certain administrative activities until March 31. Furthermore, decisions made by the government between April 1 and the beginning of December which cause overexpenditures compared with original estimates, will be reviewed, and certain obligations to be met may be carried over into the next fiscal year.

BUDGETARY EXPENDITURE
CHANGES IN RELATION TO THE BUDGET SPEECH OF APRIL 23, 1985
(in millions of dollars)

	Budget Speech	Revised estimates	Change
Initial appropriations	27 400	27 400	—
Supplementary Appropriations #1	50	50	—
Standing Committee of the National Assembly	—	7	7
Special warrant	—	1	1
Supplementary Appropriations #2	—	233	233
Subtotal	27 450	27 691	241
Less: lapsed appropriations	200	491	291
Probable expenditure	27 250	27 200	(50)

The supplementary appropriations just tabled are required to meet overexpenditures of $34 454 000 for the public debt service, stemming from a drop in the exchange rate of the Canadian dollar and the realization, more rapidly than originally anticipated, of the borrowing program, and to absorb estimated expenditures of $28 000 000 relating to the general elections of December 2. Furthermore, the budget allocated to job creation and community work programs will be increased by $12 769 000 while the allocation to programs of financial aid for disaster and crime victims will go up by $14 925 000 and the government contribution to the farm income stabilization insurance program by $13 105 000.

Finally, an additional $24 000 000 will be allocated to subsidize certain industries, $14 000 000 for the establishment of a high technology helicopter assembly plant, $7 000 000 for financial aid to the petrochemical industry and $3 000 000 for assistance in the reconstruction of the Domtar plant in Windsor.

The expenditure accounts that will generate most of the lapsed appropriations are the lower-than-anticipated cost of salaries and other remuneration, and general operating expenses and capital expenditures of various departments and agencies. Government employer contributions to the retirement plans will also be lower than originally estimated, stemming primarily from a reduction in

the interest rate applicable to the account balance, as will certain transfer programs, in particular those administered by the SHQ, the SDI and the OCA.

Non-Budgetary Transactions

As reported in the September 30 Quarterly Presentation of Financial Transactions, the surplus in non-budgetary transactions originally estimated at $1 495 000 000 has been reduced to $1 450 000 000, increasing financial requirements by $45 000 000. This differential is the result of the combined impact of three factors.

An additional source of funds of $30 000 000 appears under investments, loans and advances following the elimination of the unexpended portion of the provision entered at the time of the Budget Speech. The anticipated retirement plans account surplus is down by $35 000 000; this drop stems from a slight decline in employee contributions and the corresponding employer contributions as well as lower interest charges on the account balance. Finally, the anticipated level of changes in other non-budgetary accounts is reduced by $40 000 000, reflecting in particular a rise in the volume of accounts receivable and a decrease in the accrued interest payable at the end of the fiscal year.

Furthermore, changes in the estimates of own-source revenue in this Policy Statement will give rise to an increase of $20 000 000 in accounts receivable, leading to an equivalent financial requirement under other accounts, bringing the anticipated balance of non-budgetary transactions to $1 430 000 000.

THE REVISED FINANCIAL FRAMEWORK

If we take into account the effect of the measures presented in this Policy Statement and further variations in the prospects for changes in revenue, the budgetary deficit will be $3 145 000 000 in 1985-1986 compared to $3 095 000 000 estimated in the original Budget. Net financial requirements are increased to $1 715 000 000.

At the end of the second quarter of the fiscal year, anticipated repayments of borrowings were reduced from $1 540 000 000 as announced in the Budget Speech to $1 205 000 000. This $335 000 000 decrease stems from the exercise, on the part of certain holders of previous bond issues, of the extension option; last April it was expected that these bond holders would demand full repayment during the current fiscal year.

The borrowing program having already been revised to $2 990 000 000, the cash on hand will be increased by $70 000 000 as at March 31, 1986.

On December 15, borrowings since April 1 totalled $2 206 700 000, $725 000 000 from the Caisse de dépôt et placement du Québec. Borrowings to be made before March 31 will amount to $783 300 000, $450 000 000 coming from the Caisse de dépôt et placement du Québec.

	Budget Speech 1985-04-23	Revisions of Budget Statement	Change
	(in millions of dollars)		
1. Budgetary transactions			
Revenue	+24 155	+24 055	−100
Expenditure	−27 250	−27 200	+ 50
Deficit	−3 095	−3 145	− 50
2. Non-budgetary transactions			
Investments, loans and advances	+ 120	+ 150	+ 30
Retirement plans account	+ 1 335	+ 1 300	− 35
Other accounts	+ 40	− 20	− 60
Balance	+1 495	+1 430	− 65
3. Net financial requirements	−1 600	−1 715	−115
4. Financing			
Change in cash position	—	− 70	− 70
New borrowings	+ 3 140	+ 2 990	−150
Repayments of borrowings	− 1 450	− 1 205	+335
Total	+1 600	+1 715	+115

Note: A (+) sign indicates a source of financing and a (−) sign, a financial requirement. For the change in cash position, a (+) sign indicates a decrease and a (−) sign, an increase.

TABLE 1
GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
SUMMARY
(in millions of dollars)

	1984-1985	1985-1986		
	Real Results	Budget Speech	Revisions of Budget Statement	Annual Change %
1. Budgetary transactions				
Revenue	+22 310.0	+24 155.0	+24 055.0	+7.8
Expenditure	−25 542.5	−27 250.0	−27 200.0	+6.5
Deficit	**− 3 232.5**	**− 3 095.0**	**− 3 145.0**	
2. Non-budgetary transactions				
Investments, loans and advances	− 171.8	+ 120.0	+ 150.0	
Retirement plans account	+ 1 183.5	+ 1 335.0	+ 1 300.0	
Other accounts	+ 218.8	+ 40.0	− 20.0	
Balance	**+ 1 230.5**	**+ 1 495.0**	**+ 1 430.0**	
3. Net financial requirements	**− 2 002.0**	**− 1 600.0**	**− 1 715.0**	
4. Financing				
Change in cash position	− 211.0	—	− 70.0	
New borrowings	+ 3 281.0	+ 3 140.0	+ 2 990.0	
Repayments of borrowings	− 1 068.0	− 1 540.0	− 1 205.0	
Total	**+ 2 002.0**	**+ 1 600.0**	**+ 1 715.0**	

N.B.: A (−) sign indicates a financing requirement and a (+) sign, a source of financing, except for the changes.

TABLE 2
GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
(In millions of dollars)

	1984-1985	1985-1986		
	Real Results	Budget Speech	Revisions of Budgetary Statement	Annual Change %
1. Income and property taxes				
Personal income tax	7 126.9	7 730.0	7 864.0	+10.3
Employer contributions to Health Services Fund	1 509.5	1 600.0	1 641.0	+ 8.7
Corporate taxes[1]	996.4	1 049.0	1 014.0	+ 1.8
Succession duties	45.1	28.0	37.0	−18.0
	9 677.9	**10 407.0**	**10 556.0**	**+ 9.1**
2. Consumption taxes				
Retail sales	2 575.1	3 162.0	3 176.0	+23.3
Fuel	1 030.4	1 112.0	1 083.0	+ 5.1
Tobacco	373.5	530.0	551.0	+47.5
Meals and hotel	303.4	326.0	328.0	+ 8.1
Other[2]	112.4	119.0	123.0	+ 9.4
	4 394.8	**5 249.0**	**5 261.0**	**+19.7**
3. Duties and permits				
Motor vehicles	273.3	280.0	295.0	+ 7.9
Alcoholic beverages	67.2	71.0	71.0	+ 5.7
Natural resources[3]	96.2	114.0	107.0	+11.2
Pari-mutuel	29.7	31.0	28.0	− 5.7
Other	70.9	71.0	77.0	+ 8.6
	537.3	**567.0**	**578.0**	**+ 7.6**
4. Miscellaneous revenue				
Sales of goods and services	226.5	157.0	187.0	−17.4
Interest	269.5	257.0	233.0	−13.5
Fines, confiscations and recoveries	92.7	112.0	105.0	+13.3
	588.7	**526.0**	**525.0**	**−10.8**
5. Transfers from government corporations				
Société des alcools du Québec	352.0	430.0	370.0	+ 5.1
Loto-Québec	240.0	300.0	310.0	+29.2
Hydro-Québec	155.8	156.0	—	—
	747.8	**886.0**	**680.0**	**− 9.1**
Total own-source revenue	**15 946.5**	**17 635.0**	**17 600.0**	**+10.4**
6. Government of Canada transfers				
Equalization	3 101.6	2 940.0	2 920.0	− 5.9
Other transfers pertaining to fiscal arrangements	1 833.4	1 962.0	1 974.0	+ 7.7
Contributions to welfare programs	1 147.8	1 211.0	1 226.0	+ 6.8
Other programs	280.7	407.0	335.0	+19.3
Total Government of Canada transfers	**6 363.5**	**6 520.0**	**6 455.0**	**+ 1.4**
Total budgetary revenue	**22 310.0**	**24 155.0**	**24 055.0**	**+ 7.8**

1 Includes taxes on corporate profits, capital and insurance premiums.
2 Includes tax on telecommunications and on electronic advertising.
3 Includes forest, mining and water resources.

TABLE 3
GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE
(In millions of dollars)

	1984-1985	1985-1986		
Departments and agencies	**Real Results**	**Budget Speech**	**Revisions of Budget Statement**	**Annual Change %**
Affaires culturelles	162.0	163.4	181.5	+12.0
Affaires municipales	505.7	685.4	418.8	−17.2
Agriculture, Pêcheries et Alimentation	461.4	524.6	525.4	+13.9
Assemblée nationale	46.3	56.9	58.4	+26.1
Commerce extérieur	18.2	24.4	29.4	+61.5
Communautés culturelles et Immigration	45.6	46.0	48.4	+ 6.1
Communications	207.0	207.0	224.5	+ 8.5
Conseil exécutif	42.0	46.9	55.7	+32.6
Conseil du trésor	12.7	16.8	16.5	+29.9
Éducation	4 298.9	4 765.3	4 762.5	+10.8
Énergie et Ressources	349.1	353.1	358.5	+ 2.7
Enseignement supérieur, Science et Technologie	2 185.6	2 309.9	2 279.1	+ 4.3
Environnement	141.5	166.2	171.2	+21.0
Finances	2 507.0	2 901.0	2 838.0	+13.2
Habitation et Protection du consommateur	345.4	393.2	383.4	+11.0
Industrie et Commerce	326.8	305.0	330.3	+ 1.1
Justice	707.0	716.2	826.5	+16.9
Loisir, Chasse et Pêche	226.1	207.6	226.6	+ 0.2
Main-d'oeuvre et Sécurité du revenu	2 604.2	2 869.9	2 824.1	+ 8.4
Organisme relevant du ministre délégué au Développement et à la Voirie des régions	52.8	32.4	54.3	+ 2.8
Organisme relevant du ministre délégué aux Relations avec les Citoyens	32.4	36.9	37.4	+15.4
Organismes relevant de la ministre déléguée à la Condition féminine	56.3	75.3	71.3	+26.6
Organismes relevant du ministre délégué à l'Administration	767.3	871.0	859.1	+12.0
Personnes désignées par l'Assemblée nationale	38.6	34.2	62.9	+63.0
Régie de l'assurance-maladie du Québec	1 456.5	1 576.6	1 576.6	+ 8.2
Régie des installations olympiques	6.9	5.0	5.0	−27.5
Relations internationales	51.3	54.1	59.4	+15.8
Revenu	231.2	244.0	251.4	+ 8.7
Santé et Services sociaux	5 765.3	5 941.3	5 935.2	+ 2.9
Tourisme	68.5	69.1	73.9	+ 7.9
Transports	1 630.6	1 674.2	1 672.8	+ 2.6
Travail	42.1	27.1	31.9	−24.2
Travaux publics et Approvisionnement	150.2	—	—	—
Total	**25 542.5**	**27 400.0**	**27 250.0**	**+ 6.7**
Plus: Additional expenditure provided for in budget		**49.5**	—	—
Less: Anticipated lapsed appropriations		**199.5**	**50.0**	—
Total budgetary expenditure	**25 542.5**	**27 250.0**	**27 200.0**	**+ 6.5**

TABLE 4
GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
(In millions of dollars)

	1984-1985	1985-1986		
	Real Results	Budget Speech	Revisions of Budget Statement	Annual Change $
1. Investments, loans and advances				
ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC				
SHARE CAPITAL AND INVESTED CAPITAL				
Sidbec	—	—	—	—
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	− 0.5	− 20.5	− 20.5	− 20.0
Société générale de financement (SGF)	− 51.5	− 32.0	− 32.0	+ 19.5
Société nationale de l'amiante (SNA)	− 35.0	− 25.0	− 49.0	− 14.0
Société québécoise d'exploration minière (SOQUEM)	− 11.6	—	—	+ 11.6
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	− 5.4	− 4.0	− 4.0	+ 1.4
Société québécoise d'initiatives pétrolières (SOQUIP)	− 39.9	—	—	+ 39.9
Other	− 23.6	− 51.1	− 15.1	+ 8.5
	− 167.5	**− 132.6**	**− 120.6**	**+ 46.9**
LOANS AND ADVANCES				
Office du crédit agricole du Québec	+ 11.9	+ 160.1	+ 160.1	+148.2
Sidbec	− 36.8	+ 2.0	+ 2.0	+ 38.8
Société d'habitation du Québec (SHQ)	+ 11.8	+ 12.7	+ 1.1	− 10.7
Société immobilière du Québec (SIQ)	—	+ 147.0	+ 147.0	+147.0
Other	− 0.4	− 24.9	− 21.2	− 20.8
	− 13.5	**+ 296.9**	**+ 289.0**	**+302.5**
Total enterprises of the gouvernement du Québec	**− 181.0**	**+ 164.3**	**+ 168.4**	**+349.4**
MUNICIPALITIES AND MUNICIPAL AGENCIES	+ 1.5	—	+ 1.9	+ 0.4
INDIVIDUALS, CORPORATIONS AND OTHERS	+ 7.7	− 44.3	− 20.3	− 28.0
Total investments, loans and advances	**− 171.8**	**+ 120.0**	**+ 150.0**	**+321.8**
2. Retirement plans account				
Employer and employee contributions	+1 592.0	+1 795.0	+1 753.6	+161.6
Benefits and other payments	− 408.5	− 460.0	− 453.6	− 45.1
Total retirement plans account	**+1 183.5**	**+1 335.0**	**+1 300.0**	**+116.5**
3. Other accounts				
Cash and negotiable securities in hand and outstanding deposits	− 15.4		− 3.0	+ 12.4
Outstanding cheques	+ 89.2		+ 31.0	− 58.2
Clearing accounts for collected taxes	+ 18.5		+ 17.0	− 1.5
Accounts receivable	− 103.3		− 190.0	− 86.7
Accrued interest receivable	+ 1.0		—	− 1.0
Advances from trust funds	+ 3.0		—	− 3.0
Accounts payable	+ 47.3		+ 45.0	− 2.3
Accrued interest payable	+ 178.5		+ 80.0	− 98.5
Total other accounts	**+ 218.8**	**+ 40.0**	**− 20.0**	**−238.8**
Total non-budgetary transactions	**+1 230.5**	**+1 495.0**	**+1 430.0**	**+199.5**

N.B.: A (−) sign indicates a financial requirement and a (+) sign, a source of financing.

TABLE 5
GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
FINANCING
(In millions of dollars)

	1984-1985	1985-1986		
	Real Results	Budget Speech	Revisions of Budget Statement	Annual Change $
1. Change in cash position	**– 211.0**	**—**	**– 70.0**	**+141.0**
2. New borrowings				
Treasury bills			+ 150.0	+150.0
Bonds				
Negotiable	+1 906.7		+2 123.8	+217.1
Redeemable on demand	+1 233.9		+ 659.2	–574.7
Non negotiable	+ 5.4		+ 5.4	—
Other borrowings	+ 135.0		+ 51.6	– 83.4
Total new borrowings	**+3 281.0**	**+3 140.0**	**+2 990.0**	**–291.0**
3. Borrowings repaid				
Treasury bills	– 80.0	—	—	+ 80.0
Bonds				
Negotiable	– 399.7	– 970.2	– 609.7	–210.0
Redeemable on demand	– 501.9	– 475.0	– 500.0	+ 1.9
Assumed	– 3.2	– 2.0	– 2.0	+ 1.2
Other borrowings	– 9.6	– 9.8	– 9.8	– 0.2
Contributions to the sinking fund	– 73.6	– 83.0	– 83.5	– 9.9
Total borrowings repaid	**–1 068.0**	**–1 540.0**	**–1 205.0**	**–137.0**
Total	**+2 002.0**	**+1 600.0**	**+1 715.0**	**–287.0**

Note: A (–) sign indicates a financial requirement and a (+) sign, a source of financing.

TABLE 6
GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NEW BORROWINGS
AS AT DECEMBER 15, 1985
(In millions of dollars)

	Date of issue	Date of maturity	Rate	Amount
Treasury bills	Various	Various	Various	150.0
Bonds				
Negotiable				
In Canadian funds	1985-05-08	2004-11-29	12.75	100.0
In Canadain funds	1985-05-30	2005-06-30	12.25	100.0
In Canadian funds	1985-06-26	1995-06-26	10.50	109.0
In Canadian funds	1985-06-26	2009-06-26	10.75	171.0
In Canadian funds	1985-07-31	1990-07-31	10.50	50.0
In Canadian funds	1985-07-31	1998-07-31	10.75	50.0
In Canadian funds	1985-07-31	2009-06-26	10.75	50.0
In Canadian funds	1985-10-03	1990-10-03	10.75	75.0
In Canadian funds	1985-10-03	2005-10-03	11.375	75.0
In U.S. funds	1985-06-15	2015-06-15	11.00	273.1
In Japanese funds	1985-06-07	1995-06-07	7.00	164.6
In Swiss funds	1985-11-06	2005-11-06	5.50	126.3
				1 344.0
Redeemable on demand	1984-06-01	1994-06-01	11.75/8.50[1]	1.2
	1985-06-01	1995-06-01	9.00/7.50[2]	655.0[3]
Non negotiable	Various	Various	Various	4.9
Other borrowings				
In Canadian funds	1985-06-14	1992-06-14	8.50[4]	1.6
In U.S. funds	1985-05-31	1997-05-31	11.00	50.0
				51.6
Total borrowings				**2 206.7**

1 The interest rate on savings bonds issued on June 1, 1984, is 11.75 % for the first year, 9.0 % for the second year, then 8.5 % until maturity.
2 The interest rate on savings bonds issued on June 1, 1985, is 9.0 % for the first year, then 7.5 % until maturity.
3 Excluding $5 023 100 to be cashed after December 15, 1985.
4 Nominal interest rate for the borrowing. Since the conditions for the borrowing of $50 000 000 issued on June 14, 1982, provide for capitalization of interest for the purposes of issuing the bill at a discount, the actual rate of return to the buyer is 16.29 %.

APPENDIX C
Fiscal and Budgetary Measures

Fiscal and Budgetary Measures

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NEW MEASURES

ADVANCING BY ONE YEAR THE REDUCTION IN INCOME TAX RATES

In the last Budget Speech, it was announced that the introduction of the new tax table to reduce the maximum marginal taxation rates from 33 to 28 percent would be carried out in two stages. In the first stage, rates would be reduced from 33 to 30 percent, to come into effect in 1986, and in the second, effective in 1987, there was to be a further reduction to 28 percent. In order to make Québec's tax system more competitive, application of these tax cuts will be speeded up by introducing, for the 1986 tax year, the tax table to be applied in 1987.

After taking account of the general 3 percent reduction in the Québec income tax and the 10 percent surtax announced in the last federal Budget Speech, the combined federal-provincial maximum marginal taxation rate in Québec will drop from 61.8 percent to 58.4 percent in 1986. As the table below shows, the differential between this maximum marginal rate and those applying in the other provinces will be appreciably reduced in 1986.

INTERPROVINCIAL COMPARISON OF THE MAXIMUM MARGINAL TAXATION RATES IN THE FEDERAL AND PROVINCIAL TAX SYSTEMS
(In %)

	1985		1986	
		Differential		Differential
Québec	**61.8**	**—**	**58.4**	**—**
Newfoundland	56.1	5.7	57.8	0.6
Prince Edward Island	53.6	8.2	55.3	3.1
Nova Scotia	54.9	6.9	56.6	1.8
New Brunswick	55.4	6.4	57.1	1.3
Ontario	52.0	9.8	54.9	3.5
Manitoba	57.7	4.1	59.4	−1.0
Saskatchewan	55.4	6.4	57.4	1.0
Alberta	50.5	11.3	52.2	6.2
British Columbia	53.4	8.4	55.1	3.3

This new tax table will reduce the marginal taxation rates for all taxpayers who now have a taxable income of over $17 360. The following table shows the gain resulting from the income tax rate reduction being advanced by one year.

GAIN FROM ADVANCING BY ONE YEAR THE INCOME TAX RATE REDUCTION
(In dollars)

Taxable Income	Gain in 1986
20 000	10
30 000	68
40 000	195
50 000	324
75 000	816
100 000	1 301

Another table then shows, for certain typical households, the reduction in income tax resulting from the application, in 1986, of the tax table planned for 1987, as well as from the reorganization of personal income tax presented in the last Budget Speech.

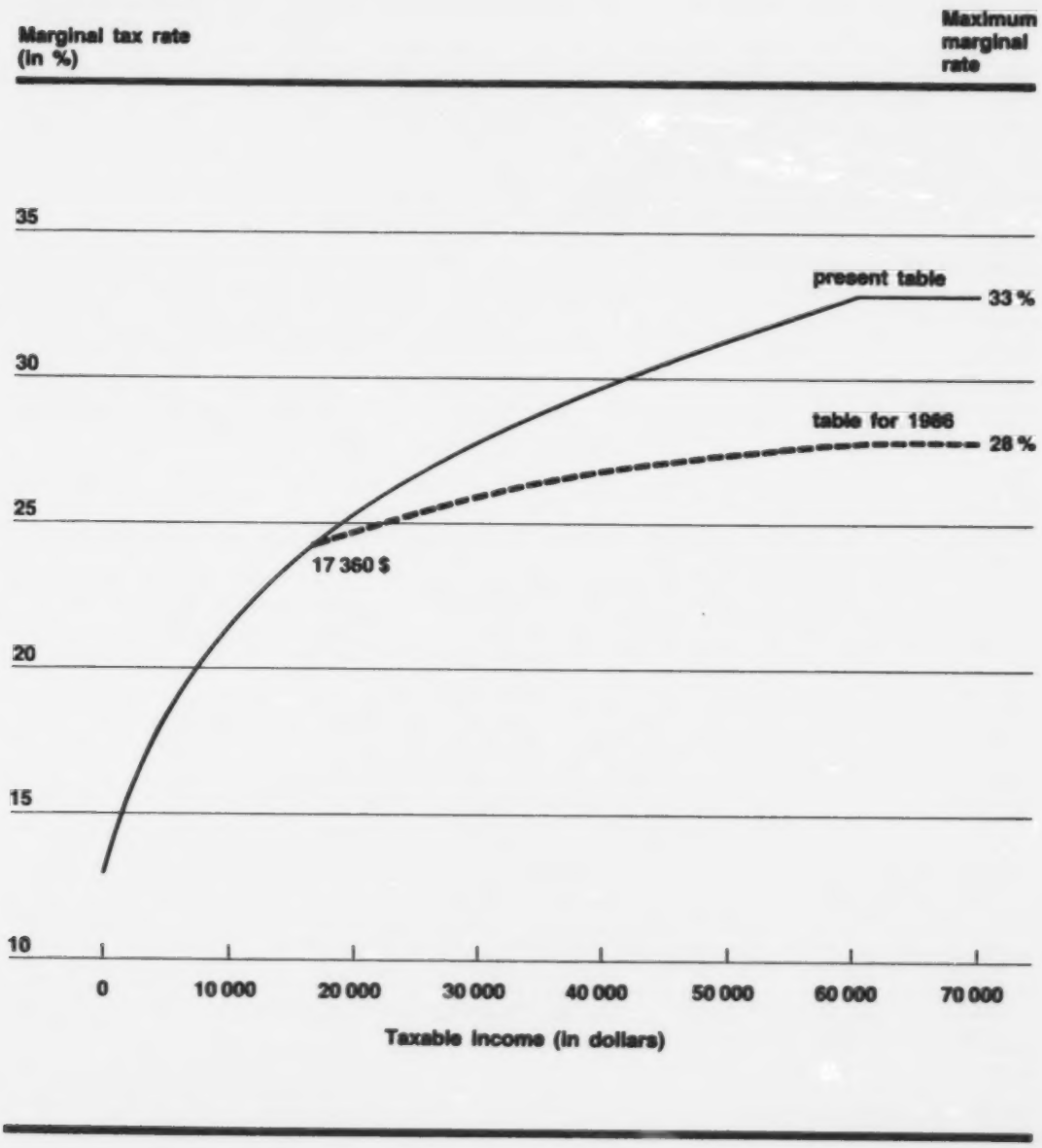
The advancing of the application of the table represents a tax reduction of $84 000 000 for taxpayers in the 1986 tax year. More than 700 000 taxpayers will benefit from this measure in 1986.

COMPARISON OF PRESENT TAX TABLE WITH NEW TABLE 1985 AND 1986 TAXATION YEARS

Present table: 1985		1986	
Taxable income bracket (in dollars)	Marginal rate (in %)	Taxable income bracket (in dollars)	Marginal rate[1] (in %)
0 — 577	13	0 — 577	13
577 — 1 244	14	⋮	⋮
1 244 — 2 015	15	⋮	⋮
2 015 — 2 906	16	⋮	⋮
2 906 — 3 936	17	⋮	⋮
3 936 — 5 127	18	Same tax table as in 1985	
5 127 — 6 504	19	⋮	⋮
6 504 — 8 095	20	⋮	⋮
8 095 — 9 935	21	⋮	⋮
9 935 — 12 061	22	⋮	⋮
12 061 — 14 519	23	⋮	⋮
14 519 — 17 360	24	14 519 — 18 820	24
17 360 — 20 644	25		
20 644 — 24 441	26	18 820 — 26 347	25
24 441 — 28 829	27		
28 829 — 33 902	28	26 347 — 39 169	26
33 902 — 39 766	29		
39 766 — 46 544	30		
46 544 — 54 380	31	39 169 — 61 608	27
54 380 — 60 714	32		
60 714 and over	33	61 608 and over	28

1 The maximum marginal rate of 28 percent is reduced to 27.16 percent when the 3 percent general tax reduction is taken into account.

GRAPH OF TAX TABLES
1985 and 1986



TAX REDUCTIONS IN 1986 FOR CERTAIN TYPICAL HOUSEHOLDS
(in dollars)

One employment income	Net taxes in 1985		Net taxes in 1986		Total tax cuts in 1986	
	Without QSSP	Av.[1] QSSP	Without QSSP	Av.[1] QSSP	Without QSSP	Av.[1] QSSP
			Couple with 2 children 6 to 11			
15 000	483		49		434	
20 000	1 393		994		399	
30 000	3 621		3 073		548	
40 000	6 180	5 260	5 471	5 047	709	213
50 000	8 947	7 682	7 989	7 422	958	260
75 000	16 518	14 125	14 506	13 511	2 012	614
			Childless couple			
15 000	695		579		116	
20 000	1 614		1 513		101	
30 000	3 843		3 690		153	
40 000	6 401	5 481	6 135	5 694	266	(213)
50 000	9 169	7 903	8 658	8 090	511	(187)
75 000	16 739	14 346	15 219	14 205	1 520	141
			Single person			
15 000	1 455		1 466		(11)[2]	
20 000	2 466		2 489		(23)[2]	
30 000	4 828		4 794		34	
40 000	7 477	6 526	7 286	6 844	191	(318)
50 000	10 316	9 017	9 847	9 257	469	(240)
75 000	18 007	15 575	16 458	15 426	1 549	149

1 Along with the reduction in income tax rates, the ceiling on allowable deductions under the Québec Stock Savings Plan was substantially lowered. Consequently, tax reductions under the QSSP were estimated on the basis of the average deduction in each income category for 1983 among taxpayers participating in the QSSP. For 1986, this average deduction was reduced by half to reflect the reorganization of the QSSP. For illustration purposes, no QSSP deductions were allowed for households having an annual employment income of $30 000 or less.

2 The increased tax burden results from the abolition of the $100 general deduction for charitable donations and medical expenses announced in the last Budget Speech and the increase in the general exemption for the purposes of contributing to the Québec Pension Plan.

EXEMPTION FROM THE RETAIL SALES TAX ON CERTAIN INSURANCE PREMIUMS

The sales tax on insurance premiums, introduced on April 23, 1985, is modified as of midnight the night of the Policy Statement.

This tax will no longer apply to individual life insurance premiums or to individual sickness and accident insurance premiums paid after midnight on the evening of the Policy Statement. Group life insurance, group sickness and accident insurance, and non-insured fringe benefit plans will remain taxable.

For this purpose group insurance will cover, under a general contract, persons belonging to a given group and in some cases their families and dependents.

The life insurance, or sickness or accident insurance, which is accessory to a contract of damage insurance will be presumed to be a damage insurance contract. The life insurance portion of a premium connected with a travel ticket, for example, will be deemed to be insurance against damages if it is accessory to the insurance contract.

The exemption announced will not apply to amounts collected by the Régie de l'assurance-automobile du Québec. In addition, there will be no tax refund on premiums repaid following a cancellation, after the day of the Policy Statement, of an insurance contract entitled to exemption.

Taxpayers' benefits from these exemptions will amount to $54 000 000 over a full year.

REDUCTION IN THE FUEL TAX RATE IN OUTLYING REGIONS

As of midnight the night of the Policy Statement, the 30 percent fuel tax rate will be reduced to 20 percent in certain designated regions. Those designated are Abitibi-Témiscamingue, Saguenay-Lac-Saint-Jean, Côte-Nord, Nouveau-Québec and Gaspésie, as set out in the section *Definition of outlying regions*.

The drop in the fuel tax rate in designated regions means a tax decrease of about 4 cents a litre. The benefit to fuel users in these regions will be a reduction in the tax burden of $49 000 000 in 1986.

EFFECT OF THE DROP FROM 30 % TO 20 % IN THE FUEL TAX IN DESIGNATED REGIONS (¢ per litre)

	Average survey price before tax	Tax at rate of 30 %	Tax at rate of 20 %	Reduction in tax
Gas				
Regular leaded	43.0	12.90	8.60	4.30
Regular unleaded	44.5	13.35	8.90	4.45
Super leaded and unleaded	46.0	13.80	9.20	4.60
Fuel oil	37.5	11.25	7.50	3.75
Propane gas	27.5	8.25	5.50	2.75

Assistance for Gasoline Retailers in Border Regions

At present, gasoline retailers located in border regions benefit from assistance to enable them to compete with their neighbours across the border.

With the reduction in the tax rate in the designated regions, assistance for retailers in these regions will no longer be necessary.

However, retailers located outside the designated regions and along the edge of the new limits may benefit from assistance equivalent to that granted to retailers in regions bordering on Ontario and New Brunswick. For retailers located on the edge of the designated regions, this assistance will be extended to cover the sale of fuel oil. For example, the following table shows the decreasing rates of assistance for every five kilometres, in the case of regular unleaded gas.

ILLUSTRATION OF FINANCIAL ASSISTANCE FORMULA FOR GASOLINE RETAILERS LOCATED ON THE EDGE OF THE DESIGNATED REGIONS

Distance from point of contact (kilometres)	Rate of reduction (%)	Assistance (¢/litre)
0 to less than 5	33.33	4.45
5 to less than 10	22.36	2.99
10 to less than 15	12.24	1.63
15 to less than 20	1.27	0.17

Application of These Reductions

Persons who retail fuel in these regions must make a complete inventory of the fuel they have on hand as of midnight the night of the Policy Statement. The ministère du Revenu will collect this information by means of a form and, if necessary, will remit an amount corresponding to the difference between the old and the new tax, taking into consideration the sums advanced as working capital.

Wholesalers authorized by the ministère du Revenu to collect and remit the tax will have to do so at the new rate for fuel delivered after midnight the evening of the Policy Statement to consumers in designated regions or located on the edge of such regions, and in other cases, at the rate of 30 percent.

Wholesalers who have no agreement with the ministère du Revenu to collect and remit the tax are entitled to reimbursement of the amount of the tax corresponding to the difference between the old and new tax for fuel delivered after midnight the night of the Policy Statement to a gas retailer or consumer in a designated region or on the edge of one.

All the reductions announced in this Policy Statement will apply only if the fuel is transferred directly to a tank supplying the engine of a motor vehicle or to a container with a capacity not exceeding 205 litres, or if it is delivered to a consumer directly into a permanent storage tank located in a designated region or on the edge of one.

Special Credit for the Taxi Industry

Since 1984, the holder of a taxi permit on December 31 has been entitled to a tax credit of $500 per vehicle. This tax credit is intended to compensate for the portion of the fuel tax that exceeds 20 percent and is to be shared with drivers who must pay the cost of gas.

To take the tax rate reduction in the designated regions into consideration, taxi permit holders in these regions will no longer benefit from this special $500 tax credit for the 1986 and following taxation years.

Definition of Outlying Regions

The designated regions have been defined on the basis of the list of electoral districts established by the Commission de la représentation under the Act respecting electoral representation (R.S.Q., c. R-24.1). The list of electoral districts with their names and limits was published in Part 2 of the Gazette officielle du Québec on May 29, 1985.

Gaspésie Region

The designated Gaspésie region includes the electoral districts of Gaspé, Matane, Bonaventure and Îles-de-la-Madeleine. Furthermore, the part of the electoral district of Matapédia situated east of highway 132 is included in the designated region. Highway 132 as well as the gasoline stations west of and immediately adjacent to this route are included in the designated region.

Saguenay–Lac-Saint-Jean Region

The Saguenay–Lac-Saint-Jean region comprises the following electoral districts: Roberval, Lac-Saint-Jean, Dubuc, Saguenay, Jonquière and Chicoutimi.

Côte-Nord Region

The Côte-Nord region comprises the electoral district of Duplessis.

Abitibi-Témiscamingue Region

The Abitibi-Témiscamingue region comprises the electoral districts of Abitibi-Est, Abitibi-Ouest and Rouyn-Noranda-Témiscamingue.

Nouveau-Québec Region

Nouveau-Québec comprises the electoral district of Ungava.

MEASURES PREVIOUSLY ANNOUNCED

BUDGET SPEECH OF APRIL 23, 1985

On April 23, 1985, in the National Assembly the Minister of Finance delivered the Budget Speech for the government's 1985-1986 fiscal year. The measure relating to the minimum tax, as well as that pertaining to the creation of international financial centres, are discussed in detail below.

With regard to other measures in that Budget, they apply in full, subject to this Policy Statement, and, with the exception of QSSP Investment Funds, the reorganization of mining taxation, clarification of municipal taxation of business, establishment of the Resource Development Fund and reorganization of the capital stock of Hydro-Québec, are included in the bill tabled by the Minister of Revenue. These measures are concerned with, among other things, reorganization of personal income taxes, abolition of succession duties and gift taxes, the Québec Stock Savings Plan, QSSP investment groups, tax advantages related to creation of SPEQs, SODEQs, share purchase options granted to employees, the Cooperative Investment Plan, broadening of deductions for Quebecers working abroad, tax privileges applying to farms and woodlands, and the tax on capital for agricultural corporations and oil refineries.

These measures also involve consumption taxes, in particular those on insurance premiums, collectors' stamps and coins, films and videocassettes, pet food, goods intended to alleviate a physical impairment, goods imported into Québec for use or consumption, trees, shrubs or other plants, and refunds with regard to the federal sales tax. Lastly, they cover certain personal transfer programs and the concept of total income established for these purposes, duties payable by foreign delegations and concordance with federal tax legislation and regulations.

With respect to the measures relating to the creation of the QSSP Investment Funds and clarification of municipal taxation of business, consultations with the circles involved are not yet complete. These consultations will continue early in the year, to ensure that the terms and conditions governing these fiscal measures can be made public as soon as possible.

In the case of improvement of mining taxation, the measures announced are included in the bill tabled this week by the Minister of Energy and Resources.

Finally, the measures pertaining to the creation of a Resource Development Fund and to the reorganization of Hydro-Québec's capital stock will be reassessed by the government.

MINISTER'S STATEMENT OF MAY 8, 1985, ON INTERIM MEASURES RESPECTING THE SALES TAX ON INSURANCE PREMIUMS

In the Ministerial Declaration of May 8, 1985, interim measures were announced to facilitate implementation of the tax on insurance premiums. The measures were intended for both taxpayers and those responsible for collection of the tax; they included, in particular, the non-application of the tax in certain cases for a period of about two months, and the exemption from the tax for marine insurance premiums, annuities considered to be insurance policies and premiums for insurance of goods shipped outside of Québec.

These measures apply in full, subject to this Policy Statement, and are included in the bill tabled by the Minister of Revenue.

MINISTER'S STATEMENT OF JUNE 20, 1985, ON THE CONCORDANCE OF THE FEDERAL AND QUÉBEC INCOME TAX SYSTEMS

The Ministerial Declaration of June 20, 1985, provided for the concordance of the federal and Québec income tax systems for most of the measures proposed by the federal Minister of Finance in his Budget Speech of May 23, 1985. Certain changes in the Québec tax system were also discussed, in particular the special tax treatment of share purchase options granted to employees, the definition of venture capital corporations for the purposes of the Sociétés de placement dans l'entreprise québécoise, the exemption of part of the cost of insurance borne by an employer, and certain deductions in the calculation of the paid-up capital of a corporation having investments in, or loans or advances to, a joint venture. Finally, terms and conditions governing application of the exemption of the savings portion of individual life insurance premiums were announced.

All these measures apply, subject to this Policy Statement, and are included in the bill tabled by the Minister of Revenue. The concordance measures will be covered by a specific bill in 1986.

THE MINISTER'S NOVEMBER 27, 1985, PRESS RELEASE CONCERNING INTERNATIONAL FINANCIAL CENTRES

The November 27, 1985, press release defined an international financial centre as an international financial establishment holding an IFC operating permit to be issued by the ministère des Finances. The purpose of such a permit, which can only be issued to a corporation, is to render the centre eligible for the exemption from Québec income tax, the tax on capital and employer's contributions to the Health Services Fund.

According to the press release, IFC operations were broadened to include:

- the purchase and sale of Canadian securities on behalf of non-resident Canadians;
- the purchase and sale of foreign (non-Canadian) and international securities (including securities of Canadian companies listed on foreign exchanges) on behalf of Canadians;
- the underwriting of securities issued by Canadian borrowers in any currency and distributed to Canadian non-residents abroad;
- the underwriting of securities issued by foreign borrowers in Canadian dollars and distributed to Canadian residents;
- the clearing of eligible securities to ensure the necessary financial support within an exchange-trading framework for such eligible securities.

The press release also announced the establishment of the Bureau des établissements financiers internationaux (BÉFI), which will have its head office in Montréal and promote international financial centres in Montréal.

The measures announced in this communiqué and those outlined in the April 23, 1985, Budget Speech, will apply as of January 1, 1986.

MINIMUM TAX

General Considerations

In the 1985-1986 Budget Speech, the introduction of a minimum tax applicable starting in the 1986 taxation year was announced. Such a tax was to take the form of a limit on tax expenditures.

Moreover, the Budget Speech stipulated that, were the federal government to also establish a minimum tax, Québec would seriously consider bringing its legislation into line with the federal formula.

On December 4, 1985, the federal government opted for an alternative minimum tax formula, a formula which generally satisfies the principal objectives set by the gouvernement du Québec.

The alternative minimum tax essentially entails comparing the amount of regular tax payable according to general income tax provisions with a fixed-rate minimum tax established on the basis of modified taxable income (from which tax expenditures are not deducted), and considering the greater amount as the basic tax. Where the basic tax is the minimum tax, the taxpayer may not deduct tax credits which are considered to be tax expenditures. On the other hand, where the basic tax is the regular tax, the taxpayer may deduct tax credits considered to be tax expenditures up to the difference between the amount of his ordinary tax calculated before the deduction of such credits, and his minimum tax. With regard to tax credits which are not considered to be tax expenditures, they may be deducted from the regular tax, or, if need be, from the minimum tax.

Detailed Calculation of the Alternative Minimum Tax

Québec tax legislation and regulations will be brought into line with federal ones governing the alternative minimum tax through adaptation, bearing in mind, among other things, a number of particular features.

The following section briefly explains the rules and particularities of the alternative minimum tax which will apply in Québec. Details will be announced when pertinent legislation is tabled, as soon as possible after federal legislation in this field is adopted. To illustrate the calculation of the minimum tax, a formula is presented at the end of this section.

Rate

The rate of the Québec alternative minimum tax will be 14 percent, which is half the maximum marginal taxation rate in effect in 1986. Once the 3 percent general tax deduction has been taken into account, the rate is actually equivalent to 13.58 percent. Taking into account the 14.2 percent federal alternative minimum tax calculated before the federal surtax but after the provincial rebate, the combined rate of both alternative minimum tax systems will be 27.78 percent.

Basic Exemption Applicable to Trusts

The basic exemption applicable to trusts will correspond to the taxable income threshold on which tax is calculated at the marginal rate of 14 percent, i.e., $577 in 1986.

Additions to and Subtractions from Net Income to Compute Taxable Income for the Purposes of the Alternative Minimum Tax

Once a taxpayer has calculated his net income for the purpose of regular tax, he will have to add to it all tax expenditures considered in the calculation of his total income and his regular net income, that is, in particular, certain losses arising from the use of tax shelters, deductions for Canadian exploration expenses (CEE), Canadian development expenses (CDE) and depletion, including the 66⅔ percent additional deduction with respect to mining exploration expenses in Québec, rental losses arising from the capital cost allowance (CCA) in respect of multiple unit residential buildings (MURBs) or Canadian films, including the 50 percent additional deduction for certified Québec films, the excluded half of capital gains less the lifetime capital gains exemption claimed, gains on the disposition of Canadian cultural property to eligible agencies, capital dividends received, the exclusion of half of the Québec or Canada Savings Bonds cash bonuses, contributions to a Registered Retirement Plan or a Registered Retirement Savings Plan and the withdrawal of income subject to forward averaging.

From income thus calculated, he must subtract amounts deducted in calculating his taxable income which do not constitute tax expenditures, i.e., specifically, medical expenses, charitable donations, donations to Québec, Canada or a province, the deduction for disability, the transfer of the disability deduction, the required refund of unemployment insurance benefits, losses other than capital losses from other years, capital losses from other years, the deduction with respect to income subject to forward averaging, the gross-up of dividends of Canadian corporations and the deduction for foreign employees of an international financial centre (IFC). He must also subtract from the balance thus obtained the $40 000 basic exemption for the purpose of the alternative minimum tax, and personal exemptions.

Special Québec Features with Respect to Tax Deductions

Amounts added or subtracted in the preceding calculation and which are different from those calculated for the purpose of the federal alternative minimum tax include, in particular:

- The gross-up equal to half the dividends received from Canadian corporations, added in calculating the taxpayer's income, must be deducted from net income. This gross-up is added in calculating income to achieve, with the dividend tax credit, the integration of the taxation of the income of corporations and their shareholders; thus, it does not, in itself, constitute income.
- The deduction for disability granted to a taxpayer and transferred to the individual responsible for him must be subtracted from net income, as it is a deduction accorded to cover essential needs. Net income must be adjusted in consequence to take into account taxpayers' actual ability to pay.
- The deduction for the foreign employees of an international financial centre must be deducted from net income for the purpose of calculating the alternative minimum tax in order to encourage the development of international financial centres in Montréal.

Deductions of Québec tax expenditures, such as the deduction for the purchase of shares under the Québec Stock Savings Plan, that for the purchase of preferred shares under the Cooperative Investment Plan and the deduction granted to the shareholders of a Société de placements dans l'entreprise québécoise (SPEQ) are automatically taken into account in calculating the alternative minumum tax, as they are not deducted from taxable income for the purpose of the minimum tax. On the other hand, the deduction for Quebecers working abroad and the allowance for Québec employees of an IFC will not be limited by the minimum tax.

Calculation of Tax Payable

Generally, once a taxpayer has calculated his provisional tax, i.e., the tax determined by applying to his taxable income the appropriate taxation rates for the purpose of regular tax, from which he subtracts the dividend tax credit, and his income tax for the purpose of the alternative minimum tax, he then chooses the greater of the two taxes, from which he subtracts his minimum tax carried forward from preceding years, as is the case under the federal alternative minimum tax. The minimum tax carried forward from other years is represented by the sum of additional taxes paid by the taxpayer, as a result of the application of the minimum tax formula during the seven previous years. However, the amount thus subtracted may not exceed the excess of the provisional tax for the year over the alternative minimum tax for the year. From this balance, the taxpayer must subtract total limited tax credits, in particular the credit for political contributions, the tax credit respecting the Fonds de solidarité des travailleurs du Québec, the tax credit for SODEQ shares, the refundable 10 percent tax credit for research and development, and the tax credit respecting the Sociétés d'entraide économique, without, however, exceeding the difference between his provisional tax for the year and his alternative minimum tax. Thus, these credits, which constitute tax expenditures, may not be used to reduce the alternative minimum tax.

Special Québec Features with Respect to Tax Credits

Limited tax credits for the purpose of calculating the Québec alternative minimum tax which are different from those limited in the federal formula include, in particular:

- The investment tax credit, the tax credit for the purchase of shares and the credit for taxes on forestry operations do not need to appear in the Québec formula as they have no equivalent in Québec tax legislation;
- The credit for shares in a SODEQ, the refundable 10 percent for research and development, and the tax credit respecting the Sociétés d'entraide économique must be added to the list of limited tax credits as they are tax expenditures which do not have a counterpart in federal tax legislation.

Calculation of Net Tax Payable

Once he has effected the foregoing calculations, the taxpayer must subtract his foreign tax credit, if applicable, and add or subtract, as need be, the following amounts in particular:

- the 3 percent general tax reduction is subtracted from tax payable;
- the Québec family allowance recovered is added to tax payable;
- the availability allowance is subtracted from tax payable.

The unused refundable portion of the investment tax credit and the child tax credit which appear in the federal formula do not have to be subtracted for the purpose of Québec tax as they have no counterpart in Québec tax legislation.

COMPUTATION OF ADJUSTED INCOME FOR ALTERNATIVE MINIMUM TAX (AMT)
(as an illustration only)

Net income for regular tax[A]			1. _____
Add:	— Losses and deductions for CEE, CDE and depletion[B]	2. _____	
	— Rental losses arising from CCA on MURBs or films[C]	3. _____	
	— Excluded half of capital gains less lifetime capital gains exemption claimed	4. _____	
	— Gains on disposition of Canadian cultural property to qualifying institutions	5. _____	
	— Capital dividends received	6. _____	
	— Exclusion of half the bonus interest on Québec and Canada savings bonds	7. _____	
	— Registered pension plan contributions	8. _____	
	— Registered retirement savings plan contributions[D]	9. _____	
	— Forward averaging withdrawal	10. _____	
	Total of additions (lines 2 to 10)		11. _____
Subtract:			
	— Medical expenses	12. _____	
	— Charitable donations	13. _____	
	— Gifts to Québec, Canada or a province	14. _____	
	— Disability deduction	15. _____	
	— Transfer of disability deduction	16. _____	
	— Repayment of unemployment insurance benefits due	17. _____	
	— Non-capital losses for other years[E]	18. _____	
	— Capital losses for other years	19. _____	
	— Forward averaging deduction	20. _____	
	— Gross-up of Canadian corporation dividends	21. _____	
	— Deduction for foreign employees of an ICF	22. _____	
	Total deductions[F] (lines 12 to 22)		23. _____
Subtract:			
	— $40 000 (AMT exemption)[G]	24. _____	
	— Personal exemptions	25. _____	
	Total exemptions (lines 24 and 25)		26. _____
AMT taxable income (Lines 1 and 11, less lines 23 and 26)			27. _____

DETAILED INCOME TAX COMPUTATION

Taxable income for regular tax purposes	110. _____	Taxable income for minimum tax purposes	27. _____
Income tax on taxable income for regular tax purposes	111. _____		
Less: — tax credit for dividends	112. _____		
		Income tax on AMT taxable income (14 % of	
Provisional tax[H]	113. _____	line 27)	28. _____
Take the higher of the provisional tax (line 113) and alternative minimum tax (line 28)			29. _____
Less: — AMT for previous years carried forward[I]			30. _____
Income tax[J]			31. _____
Less:[K] — tax credit for contributions to political parties		32. _____	
— tax credit related to the Fonds de solidarité des travailleurs du Québec		33. _____	
— tax credit for SODEQ shares		34. _____	
— tax credit related to the Sociétés d'entraide économique		35. _____	
— refundable 10 % tax credit for research and development		36. _____	
Subtotal — limited tax credits (lines 32 to 36) (not to exceed the excess of the provisional tax for the year (line 113) over AMT for the year (line 28) plus the AMT carried forward (line 30))			37. _____
Less: — credit for foreign tax claimed			38. _____
Subtotal: Income tax and credits (line 31 less lines 37 and 38)		39. _____	
Less: — 3 % income tax reduction (3 % of line 39)		40. _____	
— availability allowance for children under 6		41. _____	
Subtotal (line 39 less lines 40 and 41)			42. _____
Plus: — Québec family allowances recovered			43. _____
Net income tax payable (line 42 plus line 43)			44. _____

NOTES

A. At the outset, net income for the purpose of calculating the alternative minimum tax may be a negative amount.

B. The 66⅔ percent additional deduction for Québec exploration expenses is also added. The expression CEE means Canadian Exploration Expenses and CDE means Canadian Development Expenses.

C. The 50 percent additional deduction for certified Québec films is added. The expression CCA means Capital Cost Allowance, and MURBs, Multiple Unit Residential Buildings.

D. Contributions to RRPs and RRSPs do not generally include deductions for transfers of funds between the plans.

E. The portion of losses other than capital losses for other years incurred after 1985, which is related to tax expenditures, does not entitle the taxpayer to a deduction for the purpose of calculating the AMT.

F. Several deductions allowed in calculating the regular tax are not permitted with respect to the AMT. Mention should be made, among others, of the exclusion of deductions for the QSSP, CIP, SPEQ, interest and dividend deductions and those respecting retirement income, as well as most deductions transferred from one spouse to the other.

G. The $40 000 basic exemption does not apply to trusts. In this instance, it will correspond to the taxable income threshold on which tax is calculated at the marginal rate of 14 percent, i.e. $577 in 1986.

H. This amount does not take into account general averaging of the income of farmers and fishermen, as the case may be.

I. The AMT carried forward from preceding years (line 30) may not exceed the excess of the provisional tax for the year (line 113) over the alternative minimum tax for the year (line 28).

J. Tax on income subject to forward averaging also enters into the calculation of the tax (line 31).

K. The total limited tax credits (lines 32 to 36) must not exceed the excess of the provisional tax for the year (line 113) over AMT for the year (line 28) plus the AMT carried forward (line 30).

MEASURES ON THE CONCORDANCE OF QUÉBEC AND FEDERAL TAX LEGISLATION AND REGULATIONS

Bill C-72 was adopted by the Canadian House of Commons on October 29, 1985. It contains many technical amendments to the Income Tax Act, with respect, in particular, to provisions concerning Canadian and foreign mining property, activities related to resources, foreign tax credits, charitable donations and principal residences. To the extent that the Québec Taxation Act contains corresponding technical provisions, concordance measures will be adopted to bring the Québec and federal taxation systems more closely into line.

On the other hand, some modifications have not been retained because current Québec legislation is satisfactory in this respect; this applies to amendments respecting personal exemptions (s.53), overpayments of family allowances* (s.25(2)) and trusts set up for minors (s.50(4)). Other modifications were not adopted because Québec's taxation system does not offer corresponding provisions; this applies, in particular, to those concerning the investment tax credit (ss. 64, 72, 73), the tax credit for employment abroad (s.68) and profits from manufacturing and processing in Canada (s.70).

A number of modifications of an administrative nature have not been retained either, as current Québec legislation is satisfactory. This applies to provisions dealing with the payment of the balance of an assessment (s.89) and restrictions on collection (s.116).

The federal Finance Minister announced certain measures through press releases; Québec legislation and regulations will be brought into line with such measures on the same dates that they apply for the purpose of federal tax. This includes the transitional measure applying to the limitation of the use of losses resulting from the deduction of the capital cost allowance on property used to operate a business offering leisure services (July 26, 1985, press release), new rules concerning carved-out

* This measure is included in the bill tabled this week by the Minister of Revenue.

mining assets which do not apply to assets transferred under a written agreement reached prior to July 20, 1985 (85-126, 85-152)*, mining exploration costs incurred under an agreement entailing the issue of flowthrough shares within 60 days after the end of the calendar year (85-212), including the 66⅔ percent additional deduction for Québec mining exploration expenses, modifications restricting the application of the rule for grossing up the cost of the property of a company to undepreciated capital property (85-216) and rules to prevent trusts from being used to market securities issues in such a way that income and dividends returns to investors are distributed tax free (85-204).

On September 5, 1985, the federal Minister of Communications announced that changes would be made in regulations governing the capital cost allowance related to the production of Canadian films and videos. The announcement emphasized a thorough review of guaranteed receipts in income tax regulations. In this respect, Québec legislation and regulations will be amended to bring them more closely into line with federal ones. However, such concordance measures will only be adopted after federal legislation or regulations arising from the press release come into force and will be applicable on the same dates as they will for the purpose of federal income tax.

On June 20, 1985, the Québec Minister of Finance announced that Québec tax legislation and regulations would be amended, in terms of their general principles, in order to incorporate federal measures respecting proposed amendments concerning tax incentives to encourage retirement savings plans. This would be done taking into account transitional measures and the implementation period. However, on November 21, 1985, the federal Minister of Finance announced transitional measures which would make it easier to introduce the new system of incentives to encourage retirement savings plans proposed in the May 23, 1985, Budget Speech. It is these measures which were announced November 21, 1985, applicable as of January 1, 1986, which will be integrated into Québec legislation. In this respect, as announced in the June 20,1985, Statement, ceilings on contributions to Québec Stock Savings Plans and Cooperative Investment Plans will be increased by $2 000 per year starting in 1986.

MISCELLANEOUS MEASURES

ABOLITION OF SUCCESSION DUTIES AND THE ISSUING OF A CERTIFICATE OF RELEASE FOR INHERITED PROPERTY

In the April 23, 1985, Budget Speech, succession duties and the gift tax were abolished with respect to estates opened and gifts made after midnight on the evening of the Budget Speech. The measure has been reiterated in this Statement. The obligation to obtain a permit to dispose of property transmitted or deemed to have been transmitted following a death in cases stipulated in legislation was maintained to preserve better control over the payment of taxes payable under other tax legislation.

To facilitate the administration of tax legislation applicable to estates and, while ensuring the collection of duties, interest and penalties required, to further reduce the disadvantages which may arise from restrictions on the transfer of some property, the Succession Duties Act will be abolished as soon as legislation implementing budgetary measures announced in the April 23, 1985, Budget Speech comes into force. Moreover, provisions will be introduced in the Act respecting the Ministère du Revenu to increase the responsibility of the executor and require, among other things, that he inform the Minister of Revenue in writing of his intention to proceed with the distribution of property in an estate.

TECHNICAL MODIFICATIONS RELATED TO THE ACT RESPECTING QUÉBEC BUSINESS INVESTMENT COMPANIES

To facilitate the application of the Act respecting Québec Business Investment Companies, amendments will be made in it to better define « common shares », to ensure that requirements to be met

* Department of Finance press release reference number.

by an eligible corporation are satisfied on the date of acquisition of an eligible investment, to facilitate calculation of the assets or net shareholders' equity of an eligible corporation, to ensure that the eligible corporation operates primarily in one of the sectors of activity established by regulation, and to grant the government the power to adopt regulations enabling it to determine the conditions which an eligible corporation must satisfy and the information and reports it must provide.

LIFETIME CAPITAL GAINS EXEMPTION AND CALCULATION OF TOTAL INCOME FOR THE PURPOSES OF THE QSSP AND CIP

On June 20, 1985, the Québec Minister of Finance announced that Québec tax legislation would be brought into line with federal legislation with regard to measures governing a lifetime exemption of the first $500 000 in capital gains made from the sale of farm property and that, for other property, concordance would only be undertaken for measures which were to come into force during the first two years, in particular, a $20 000 ceiling on the total exemption for 1985, and $50 000 for 1986 and subsequent years. Concordance respecting this decision has been reiterated in this Statement.

To ensure that the basis for calculating the limit on contributions which a taxpayer may claim for the purposes of the Québec Stock Savings Plan and the Cooperative Investment Plan better reflect a taxpayer's income which may entitle him to these tax expenditures, the definition of "total income" to which the 20 percent rate applies will be modified so that the exemption reduces total income, starting in 1986.

APPLICATION OF THE SALES TAX TO COLLECTORS' COINS

At present, the sales tax does not apply to the purchase of gold maple leaf coins struck by the Royal Canadian Mint.

As of midnight on the evening of the Statement, purchases of such coins will be taxable, in order to respect GATT provisions.

MODIFICATION OF THE RATE OF CONTRIBUTION TO THE SPECIAL OLYMPIC FUND

The proportion of revenue from the tobacco tax paid to the Special Olympic Fund is 17.974 percent, except for the period from April 24, 1985, to April 30, 1986, during which it was set at 16.681 percent to take into account $10 000 000 recoverable from Loto Canada.

To reflect the recovery of an additional $3 000 000 from Loto Canada, the proportion of revenue from the tobacco tax paid to the Special Olympic Fund will be reduced to 15.413 percent for the period from January 1, 1986, to April 30, 1986.

This measure will bring in $3 000 000 in additional government revenue.

IMPROVEMENT OF THE TAXATION SYSTEM AS IT APPLIES TO NON-GOVERNMENTAL INTERNATIONAL AGENCIES AND THEIR FOREIGN EMPLOYEES

At present, a civil servant or official of the government of a country other than Canada is generally exempted from income tax, provided his duties oblige him to reside in Canada, he resided outside Canada immediately prior to assuming his duties, and the foreign government grants a similar privilege to the same category of civil servants or officials from Québec or Canada. Such officials and civil servants and certain international agencies and their directors may also benefit from exemptions on consumption taxes, and duties and licences. Moreover, the buildings of a foreign government may be declared exempt by the Québec government from municipal and school taxes.

To further encourage the establishment of international activities in Québec, international non-government agencies recognized by the government on the recommendation of the Minister of International Relations and the Minister of Finance, and their employees and families, where they are obliged to reside in Canada to carry out their duties for the agency and they lived outside

Canada immediately prior to assuming their duties, will benefit from the same tax advantages as those currently enjoyed by civil servants or officials of the government of a country other than Canada and a foreign government. These exemptions will apply under the same conditions as those granted to the officials or civil servants of a foreign government, except the one stipulating that the foreign government must grant a similar privilege to the officials or civil servants of Canada or Québec for the exemption to apply.

To this end, the first international non-governmental agency to be recognized is the International Air Transport Association (IATA). This measure will apply as of January 1, 1986.